

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
CLERK**

**For The Year Ended
December 31, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY CLERK

**For The Year Ended
December 31, 2009**

The Auditor of Public Accounts has completed the Metcalfe County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$18,961 from the prior year, resulting in excess fees of \$92,247 as of December 31, 2009. Revenues decreased by \$175,400 from the prior year and expenditures decreased by \$194,361.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Carol England, Metcalfe County Clerk
Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Metcalfe County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 17, 2010 on our consideration of the Metcalfe County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Greg Wilson, County Judge/Executive
The Honorable Carol England, County Clerk
Members of the Metcalfe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Metcalfe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 17, 2010

METCALFE COUNTY
CAROL ENGLAND, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Grant - Library and Archives	\$	14,371
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State Fees For Services		3,437
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HB 537 Revenue Supplement		57,376
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Fiscal Court		35,249
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	313,546
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Usage Tax		384,508
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Tangible Personal Property Tax		543,875
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Other-

Marriage Licenses		2,911
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Occupational Licenses		137
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Overpayments		3,429
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Deed Transfer Tax		13,484
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Delinquent Tax	65,140	1,327,030
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		10,399
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Real Estate Mortgages		16,618
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Chattel Mortgages and Financing Statements		26,084
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All Other Recordings		16,659
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Charges for Other Services-

Copywork	18,767	88,527
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Other:

Miscellaneous		2,265
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Refunds	2,052	4,317
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Interest Earned		1,484
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Total Revenues		1,531,791
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The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
 CAROL ENGLAND, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	212,987	
Usage Tax		372,972	
Tangible Personal Property Tax		210,087	

Licenses, Taxes, and Fees-

Delinquent Tax		7,343	
Legal Process Tax		9,272	
Affordable Housing		10,182	
Overpayment Refunds		5,096	
		<u>5,096</u>	\$ 827,939

Payments to Fiscal Court:

Tangible Personal Property Tax		33,250	
Delinquent Tax		6,029	
Deed Transfer Tax		12,810	
Occupational Licenses		51	
		<u>51</u>	52,140

Payments to Other Districts:

Tangible Personal Property Tax		278,607	
Delinquent Tax		34,566	
		<u>34,566</u>	313,173

Payments to Sheriff 620

Payments to County Attorney 8,569

Operating Expenditures:

Personnel Services-

Deputies' Salaries		106,076	
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Employee Benefits-

Employer's Share Social Security		12,760	
Employer's Paid Health Insurance		3,600	

Contracted Services-

Printing and Binding		14,371	
Equipment Lease		2,642	
Office Equipment		2,400	

Materials and Supplies-

Office Supplies		3,147	
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The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
 CAROL ENGLAND, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

Expenditures (Continued)

Operating Expenditures (Continued)

Other Charges-

Advertising	\$	100	
Conventions and Travel		4,965	
Dues		540	
Postage		2,213	
Miscellaneous		2,551	
Maintenance and Repairs		522	\$ 155,887

Total Expenditures		\$ 1,358,328
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Net Revenues		173,463
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Less: Statutory Maximum		74,088
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Excess Fees		99,375
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Less: Expense Allowance	3,600	
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Training Incentive Benefit	3,528	7,128
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Excess Fees Due County for 2009		92,247
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Excess Fees Paid (Note 6)		92,247
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Balance Due Fiscal Court		\$ 0
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The accompanying notes are an integral part of this financial statement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Metcalfe County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Metcalfe County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2009
(Continued)

Note 4. Grant

The Metcalfe County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$14,371. The balance in this account on January 1, 2009 was \$14,377. This account earned \$11 in interest during the year. A total of \$14,371 was expended during the year. The balance was transferred to the fee account, leaving a grant balance of \$0 at December 31, 2009.

Note 5. Lease

The office of the Metcalfe County Clerk entered into a lease agreement on April 27, 2007 with Office Ware for a copier. The agreement requires 48 equal monthly installments of \$217. During calendar year 2009, payments of \$2,607 were made toward this lease. The ending balance as of December 31, 2009 was \$3,475.

Note 6. Excess Fees Paid

On February 23, 2010, the Metcalfe County Clerk presented her 2009 annual settlement to the fiscal court. The settlement showed excess fees for calendar year 2009 to be \$92,247. The County Clerk presented a check to the county in the amount of \$67,247, and the fiscal court voted to allow the County Clerk to keep the remaining \$25,000 and transfer that amount to her 2010 fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Carol England, Metcalfe County Clerk
Members of the Metcalfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Metcalfe County Clerk for the year ended December 31, 2009, and have issued our report thereon dated June 17, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metcalfe County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Metcalfe County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Metcalfe County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Metcalfe County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 17, 2010

COMMENT AND RECOMMENDATION

METCALFE COUNTY
CAROL ENGLAND, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

Segregation of duties over disbursements or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties exists over the disbursement functions of the County Clerk's office. Auditor noted the majority of all MVR disbursement checks are prepared by deputies, with the County Clerk signing them. Auditor notes the County Clerk prepares all other checks for monthly expenses. The County Clerk signs the majority of all checks written from her office and posts all disbursements to the ledger. Dual signatures on checks are only required in the County Clerk's absence. We recommend the County Clerk delegate all check writing duties to a deputy clerk and then she should examine and review the supporting documentation. We also recommend both the County Clerk and the deputy sign the check and initial the supporting documentation. To further strengthen internal controls, the County Clerk could review and initial the monthly reports, disbursement ledger, and the balance in the checkbook.

County Clerk's Response: Due to small staffing and numerous duties, the Clerk's office will always lack segregation of duties, by state auditor standards. As Metcalfe Clerk, I feel that I must review and approve all monthly expenses. I will delegate more of the actual check writing to my deputies in the future. The monthly reports are signed by me and I did not feel an initial was necessary. The bank statement is initialed by me and a deputy clerk. Excess fees to Fiscal Court in 2009 were \$92,247 and this audit confirms that I have accounted for all fees that our office collects.

